

Program D: Investment Management

Program Authorization on: La. Constitution, Article IV, Section 9; R.S. 36:761(C); R.S. 49:307; R.S. 49:321; R.S. 49:327(A)(B)(d); R.S. 17:3803

PROGRAM DESCRIPTION

The mission of the Investment Management Program (organizationally expressed as the Office of State Depository Control and Investments) is to invest the funds deposited in the State Treasury in a prudent manner, consistent with the cash needs of the state and the directives of the constitution and statutes, and within the guidelines and requirements of various funds under management. This involves:

- The authorized investments; maturity; and interest rates of the state's General Fund. The Treasury is responsible to provide a reasonable return on the investment of the state's funds while, at the same time, fostering the economy of the state by maintaining a reasonable proportion of funds on deposit with in-state financial institutions.
- The investment authority of the state treasurer in managing the Louisiana Education Quality Trust Fund (LEQTF) (also known as the 8g Fund). The Treasury is responsible for growing the principal portion of the Permanent Fund and providing a stable flow of income from the investments to the LEQTF beneficiaries, the Board of Elementary and Secondary Education and the Board of Regents.
- The security required for deposit of state funds. The Treasury has the responsibility to determine if the types and amounts of securities that collateralize the deposits of state funds meet all requirements as statutorily determined.

The goal of the Investment Management Program is to invest monies deposited in the State Treasury in a prudent manner, consistent with the daily cash needs of the state, the directives of the Louisiana Constitution and the state legislature, and within the guidelines and requirements of the various funds under management.

The Investment Management Program maintains several investment portfolios (each with differing characteristics) that, in combination, average \$2.70 billion, and manages approximately \$345 million in certificates of deposit in financial institutions throughout the state.

OBJECTIVES AND PERFORMANCE INDICATORS

Unless otherwise indicated, all objectives are to be accomplished during or by the end of FY 2001-2002. Performance indicators are made up of two parts: name and value. The indicator name describes what is being measured. The indicator value is the numeric value or level achieved within a given measurement period. For budgeting purposes, performance indicator values are shown for the prior fiscal year, the current fiscal year, and alternative funding scenarios (continuation budget level and Executive Budget recommendation level) for the ensuing fiscal year (the fiscal year of the budget document).

1.(KEY) To increase the annual yield of the General Fund by 5-10 basis points.

Strategic Link: This operational objective, which will be carried out within guidelines of LRS 49:327, correlates to Strategic Objective I.1 for the Investment Program in the department's strategic plan. This objective represents the baseline of investing in a prudent manner consistent with the cash needs of the state, and represents the mandatory daily oversight and control required to provide a reasonable return on the investments in the State General Fund. The attainment of this objective will ensure a stable, dependable flow of investment returns from the investment of the state's funds.

Louisiana: Vision 2020 Link: Not applicable

Children's Cabinet Link: Not applicable

Other Link(s): Not applicable

Explanatory Note: This indicator is expressed as a percentage yield/return using FY 1997-1998 as the baseline. This indicator is controlled by external forces outside the control of the state treasury. Those forces being market demand for fixed income investments and interest rates.

L E V E L	PERFORMANCE INDICATOR NAME	PERFORMANCE INDICATOR VALUES					
		YEAREND PERFORMANCE STANDARD FY 1999-2000	ACTUAL YEAREND PERFORMANCE FY 1999-2000	ACT 11 PERFORMANCE STANDARD FY 2000-2001	EXISTING PERFORMANCE STANDARD FY 2000-2001	AT CONTINUATION BUDGET LEVEL FY 2001-2002	AT RECOMMENDED BUDGET LEVEL FY 2001-2002
K	Fiscal yearend annual yield on State General Fund investments (expressed as a percentage) ¹	5.8%	6.1% ²	5.7%	5.7%	5.6%	5.2%

¹ This indicator is expressed as a percentage yield/return using actual FY 1997-1998 as the baseline. The 30-day U.S. Treasury bill is used as the cash basis benchmark. Example:

Benchmark - 30-day Treasury bill return = 4.9%

General Fund return = 5.7%

Difference = 0.8% = 80 basis points

² Market rates have provided additional yield on the General Fund investments.

GENERAL PERFORMANCE INFORMATION: STATE GENERAL FUND INVESTMENTS

PERFORMANCE INDICATOR	PRIOR YEAR ACTUAL FY 1995-96	PRIOR YEAR ACTUAL FY 1996-97	PRIOR YEAR ACTUAL FY 1997-98	PRIOR YEAR ACTUAL FY 1998-99	PRIOR YEAR ACTUAL FY 1999-00
Fiscal yearend annual yield return on State General Fund investments (expressed as a total return percentage)	5.0%	5.4%	5.7%	5.9%	6.1%
State General Fund investment income (in millions)	\$90.5	\$117.2	\$138.5	\$134.7	\$115.7

2. (KEY) To increase the annual investment return of the Louisiana Education Quality Trust Fund (LEQTF) on a year-to-year comparative basis to grow the Permanent Fund to \$900 million.

Strategic Link: This operational objective is an incremental step toward accomplishment of the program's Strategic Objective I.2: *Increase the annual investment return of the Louisiana Education Quality Trust Fund (LEQTF) on a year-to-year comparative basis to grow the Permanent Fund to \$1.2 billion by the year 2003, in accordance with LRS 17:38-1 A(1).* This objective represents the active daily management of both the stock and bond portions of the LEQTF portfolio and provides flexibility in managing the investments within guidelines of the asset allocation model. The attainment of this objective will ensure a higher degree of success in obtaining the growth of the LEQTF Permanent Fund while, at the same time, providing a stable dependable stream of annual income to the fund's beneficiaries. Active management of both bond and equity investments ensures the continuous review of assets in relationship to prevailing market conditions.

Louisiana: Vision 2020 Link: Not applicable

Children's Cabinet Link: Not applicable

Other Link(s): Not applicable

Explanatory Note: For purposes of this indicator, "Permanent Fund" is defined as the LEQTF total investment portfolio, including Support Fund dollars. This indicator is subject to external forces outside the control of Treasury. Those forces includes market demand, interest rates and cash flow requirement of the Support Fund recipients.

L E V E L	PERFORMANCE INDICATOR NAME	PERFORMANCE INDICATOR VALUES					
		YEAREND PERFORMANCE STANDARD FY 1999-2000	ACTUAL YEAREND PERFORMANCE FY 1999-2000	ACT 11 PERFORMANCE STANDARD FY 2000-2001	EXISTING PERFORMANCE STANDARD FY 2000-2001	AT CONTINUATION BUDGET LEVEL FY 2001-2002	AT RECOMMENDED BUDGET LEVEL FY 2001-2002
K	Fiscal yearend annual total return on LEQTF investments (expressed as a percentage)	9%	5% ¹	5%	5%	6%	5%
K	LEQTF Permanent Fund fair market value (in millions)	\$920.0	\$898.0 ²	\$920.0	\$920.0	\$935.0	\$900.0

¹ According to the agency's FY 1999-2000 Fourth Quarter Performance Progress Report, the variance between FY 1999-2000 yearend performance standard and actual yearend performance is due to market rate fluctuations, which are external factors outside the control of the agency.

² According to the agency's FY 1999-2000 Fourth Quarter Performance Progress Report, price volatility in both stocks and bonds produced lower market values than anticipated. While interest rates were fairly stable, spreads continued to widen causing weaker market prices.

**GENERAL PERFORMANCE INFORMATION: LOUISIANA EDUCATION QUALITY TRUST FUND
INVESTMENT**

PERFORMANCE INDICATOR	PRIOR YEAR ACTUAL FY 1995-96	PRIOR YEAR ACTUAL FY 1996-97	PRIOR YEAR ACTUAL FY 1997-98	PRIOR YEAR ACTUAL FY 1998-99	PRIOR YEAR ACTUAL FY 1999-00
Fiscal yearend annual yield return on Louisiana Education Quality Fund (LEQTF) investments (expressed as a total percentage)	5.79%	10.5%	11.4%	4.8%	5.0%
LEQTF investment income (in millions)	\$51.3	\$54.2	\$68.4	\$77.9	\$59.8
LEQTF Permanent Fund fair market value ¹ (in millions)	\$713.7	\$760.2	\$817.1	\$818.0	\$823.5

¹ Fair market value is expressed as market price of assets as of June 30 yearend.

RESOURCE ALLOCATION FOR THE PROGRAM

	ACTUAL 1999- 2000	ACT 11 2000 - 2001	EXISTING 2000 - 2001	CONTINUATION 2001 - 2002	RECOMMENDED 2001 - 2002	RECOMMENDED OVER/(UNDER) EXISTING
MEANS OF FINANCING:						
STATE GENERAL FUND (Direct)	\$129,973	\$172,462	\$172,462	\$213,139	\$212,527	\$40,065
STATE GENERAL FUND BY:						
Interagency Transfers	0	32,000	32,000	32,000	32,000	0
Fees & Self-gen. Revenues	423,673	407,420	407,420	407,420	407,420	0
Statutory Dedications	376,901	705,700	705,700	705,700	705,700	0
Interim Emergency Board	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
TOTAL MEANS OF FINANCING	\$930,547	\$1,317,582	\$1,317,582	\$1,358,259	\$1,357,647	\$40,065
EXPENDITURES & REQUEST:						
Salaries	\$309,225	\$325,087	\$325,087	\$331,701	\$331,701	\$6,614
Other Compensation	5,336	4,000	4,000	4,000	4,000	0
Related Benefits	40,320	54,997	54,997	56,033	56,033	1,036
Total Operating Expenses	20,467	30,515	30,515	59,127	58,515	28,000
Professional Services	756	0	0	0	0	0
Total Other Charges	554,443	902,983	902,983	907,398	907,398	4,415
Total Acq. & Major Repairs	0	0	0	0	0	0
TOTAL EXPENDITURES AND REQUEST	\$930,547	\$1,317,582	\$1,317,582	\$1,358,259	\$1,357,647	\$40,065
AUTHORIZED FULL-TIME						
EQUIVALENTS: Classified	7	5	5	5	5	0
Unclassified	1	1	1	1	1	0
TOTAL	8	6	6	6	6	0

SOURCE OF FUNDING

This program is funded with State General Fund, Interagency Transfers, Fees and Self-generated Revenues and Statutory Dedications. Interagency Transfers are derived from various state agencies for their share of the cost in investing funds. Fees and Self-generated Revenues are derived from fees collected for preliminary review and final approval of bond applications; from implementation of the securities lending program, and from the Local Government Investment Pool revenue. Statutory Dedications are derived from the Louisiana Quality Education Support Fund (8 (g)). (Per R.S. 39:32B. (8), see table below for a listing of expenditures out of each Statutory Dedicated Fund.)

	ACTUAL 1999 - 2000	ACT 11 2000 - 2001	EXISTING 2000 - 2001	CONTINUATION 2001 - 2002	RECOMMENDED 2001 - 2002	RECOMMENDED OVER/(UNDER) EXISTING
Louisiana Education Quality Trust Fund	\$376,901	\$705,700	\$705,700	\$705,700	\$705,700	\$0

ANALYSIS OF RECOMMENDATION

GENERAL FUND	TOTAL	T.O.	DESCRIPTION
\$172,462	\$1,317,582	6	ACT 11 FISCAL YEAR 2000-2001
			BA-7 TRANSACTIONS:
\$0	\$0	0	
\$172,462	\$1,317,582	6	EXISTING OPERATING BUDGET – December 15, 2000
\$3,840	\$3,840	0	Annualization of FY 2000-2001 Classified State Employees Merit Increase
\$3,810	\$3,810	0	Classified State Employees Merit Increases for FY 2001-2002
\$4,415	\$4,415	0	Other Adjustments - Additional funding for Bloomberg Financial Data Services
\$28,000	\$28,000	0	Other Adjustments - Additional funding for QED Financial software
\$212,527	\$1,357,647	6	TOTAL RECOMMENDED

The total means of financing for this program is recommended at 97.0% of the existing operating budget. It represents 98.5% of the total request (\$1,378,863) for this program. Increases recommended for this Program are basically attributable to additional Operational costs.

PROFESSIONAL SERVICES

This program does not have funding for Professional Services for Fiscal Year 2001-2002

OTHER CHARGES

\$92,715	Investment Marketing Data - Investment management access to Live data
\$90,058	Custodial services for the 8(g) fund
\$705,700	Funding for equity investment management program for the 8(g) fund
\$17,606	Funding for market valuations of securities held as collateral for deposits in state banks, etc.

\$906,079 SUB-TOTAL OTHER CHARGES

Interagency Transfers:

\$400	Computer Services provided by the Division of Administration
\$919	Civil Service fees

\$1,319 SUB-TOTAL INTERAGENCY TRANSFERS

\$907,398 TOTAL OTHER CHARGES

ACQUISITIONS AND MAJOR REPAIRS

This program does not have funding for Acquisitions and Major Repairs for Fiscal Year 2001-2002